

TRW LucasVarity Electric Steering Limited

Report and Accounts

For the 11 months ended 31 December 1998

Registered Number: 3496156



TRW LucasVarity Electric Steering Limited

Registered No. 3496156

DIRECTORS

J Handysides	(Chairman, appointed 27 March 1998)
F Clarke	(appointed 27 March 1998)
R B McDonald	(appointed 27 March 1998)
J C Plant	(appointed 27 March 1998)
I A J Seewald	(appointed 27 March 1998)
B P Connor	(appointed 21 January 1998, resigned 27 March 1998)

SECRETARY

R Sneed	(appointed 28 May 1998)
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AUDITORS

Ernst & Young
One Colmore Row
Birmingham
B3 2DB

BANKERS

Barclays Bank Plc
PO Box No 544
54 Lombard Street
London
EC3V 9EX

SOLICITORS

Wragge & Co
55 Colmore Row
Birmingham
B3 2AS

REGISTERED OFFICE

Woden Road
Wednesbury
West Midlands
WS10 7SY

TRW LucasVarity Electric Steering Limited

DIRECTORS' REPORT

The directors present their report and accounts for the 11 months ended 31 December 1998.

RESULTS AND DIVIDENDS

The loss for the period, after taxation, amounted to £7,767,322. The directors do not recommend payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company was formed on 21 January 1998 and became a Joint Venture between TRW Automotive Systems Limited and Lucas Industries plc on 27 March 1998. The company's principal activity during the period has been the design and development of electrical assisted steering to meet manufacture and sale dates to motor vehicle customers during the year 2001 and the sale of engineering services.

FUTURE DEVELOPMENTS

Two major contracts have recently been awarded and, with the combined operational strength of TRW and LucasVarity, further contracts are envisaged.

FIXED ASSETS

The company operated out of the LucasVarity research and development site in Shirley during the period. The main element of capital expenditure during the period has been the refurbishment of the LucasVarity manufacturing site, costing £1,466,173. This site is leased until 2013.

Assets transferred and bought from LucasVarity on the formation of the Joint Venture totalled £30,813,900 which comprised of patents, licences and know-how, plant and equipment, and existing leasehold improvements.

Details of the company's fixed assets are shown in notes 8 to 9 of the accounts.

EVENTS SINCE THE BALANCE SHEET DATE

On 1 July 1999 the company moved to the LucasVarity manufacturing site following the completion of refurbishment and will continue to operate out of this site.

On 10 May 1999 TRW Inc acquired LucasVarity plc.

DIRECTORS AND THEIR INTERESTS

The directors at 31 December 1998 are shown on page 1.

None of the directors had any interests in the share capital of the company during the period.

J Handysides, I A J Seewald and F Clarke are also senior employees of TRW Inc. J C Plant and R B McDonald are also senior employees of LucasVarity. Their interests in the share capital of these companies are disclosed in the financial statements of those companies.

CREDITOR PAYMENT POLICY AND PRACTICE

It is the company's policy that payments to suppliers are made in accordance with these terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

DIRECTORS' REPORT

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in event that there is a failure by other parties to remedy their own year 2000 readiness.

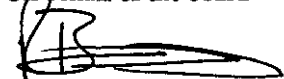
The company is well advanced in the phase of addressing the risks to our business resulting from the date change to the year 2000. Once this phase is completed we can assess the likely impact on our activities and develop prioritised action plans to deal with the key risks.

The cost of implementing the action plan will not be significant.

AUDITORS

Ernst and Young were appointed during the period and have expressed their willingness to continue in office as auditors. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

On behalf of the board



R B McDonald
Director

26 November 1999

TRW LucasVarity Electric Steering Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of TRW LucasVarity Electric Steering Limited

We have audited the accounts on pages 6 to 17, which have been prepared under the historical cost convention and on the basis of the accounting policies outlined on page 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

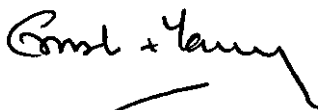
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Birmingham

26 November 1999

TRW LucasVarity Electric Steering Limited

PROFIT AND LOSS ACCOUNT for the period ended 31 December 1998

		<i>11 months ended 31 December 1998 £000</i>
	<i>Notes</i>	
TURNOVER	2	110
Cost of sales		(4)
GROSS PROFIT		106
Royalty expense	3	(1,000)
Research and development expenses		(3,820)
Administrative expenses		(1,201)
Sales & marketing expenses		(429)
Depreciation and amortisation		(1,604)
OPERATING LOSS	3	(7,948)
Interest payable	6	(124)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(8,072)
Tax on loss on ordinary activities	7	305
RETAINED LOSS FOR THE FINANCIAL PERIOD	13	(7,767)

RECOGNISED GAINS AND LOSSES

There were no recognised gains and losses other than the loss of £7,767,000 in the period ended 31 December 1998.

TRW LucasVarity Electric Steering Limited

BALANCE SHEET at 31 December 1998

	Notes	1998 £000
FIXED ASSETS		
Intangible assets	8	28,221
Tangible assets	9	2,511
		<u>30,732</u>
CURRENT ASSETS		
Debtors	10	888
		<u>888</u>
CREDITORS: amounts falling due within one year	11	(9,033)
		<u>(8,145)</u>
NET CURRENT LIABILITIES		<u>(8,145)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>22,587</u>
CAPITAL AND RESERVES		
Called up share capital	12	24,779
Share premium account	13	5,575
Profit and loss account	13	(7,767)
		<u>22,587</u>
EQUITY SHAREHOLDERS' FUNDS	13	<u>22,587</u>



R B McDonald
Director

26 November 1999

TRW LucasVarity Electric Steering Limited

STATEMENT OF CASH FLOWS for the period ended 31 December 1998

	<i>Notes</i>	<i>1998</i> <i>£000</i>
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	14(a)	(4,712)
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Interest paid		(124)
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Payments to acquire tangible fixed assets		(2,800)
Payments to acquire intangible fixed assets		(29,592)
Receipts from sales of tangible fixed assets		6
		<u>(32,386)</u>
FINANCING		
Issue of ordinary shares		30,354
New loans		6,692
		<u>37,046</u>
DECREASE IN CASH		<u>(176)</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT		
	<i>Notes</i>	<i>1998</i> <i>£000</i>
Decrease in cash		(176)
Cash inflow from increase in loans		(6,692)
MOVEMENT IN NET DEBT RESULTING FROM CASH FLOWS	14(b)	<u>(6,868)</u>
NET DEBT AT BEGINNING OF THE PERIOD	14(b)	-
NET DEBT AT 31 DECEMBER	14(b)	<u>(6,868)</u>

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

1. ACCOUNTING POLICIES

Basis of preparation

The accounts have been prepared under the historical cost convention in accordance with applicable accounting standards.

Intangible fixed assets

Intangible fixed assets are stated at cost less the amortisation of the asset over its useful life, as follows :

Patents and licences	-	over 17 years
Know-how	-	over 10 years

The carrying values of intangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying values may not be recoverable and will be reviewed at the end of the first full year.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold improvements	-	over the lease term
Plant, machinery and equipment	-	over 5 years
Motor vehicles	-	over 5 years
Computer equipment	-	over 3 years

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying values may not be recoverable.

Research and Development

Development expenditure is written off as incurred.

Deferred taxation

Provision is made for deferred taxation in respect of timing differences where it is considered that the tax deferral is unlikely to continue for the foreseeable future. The provision is calculated at the rate at which it is anticipated the timing differences will reverse.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the profit and loss account.

Leases

Rentals payable under operating leases are charged to the profit and loss account on a straight line basis over the lease term.

Pensions

The company participates in various plans sponsored by TRW Steering Systems Limited. These plans are primarily defined benefit plans and are funded by the payment of contributions to separately administered trust funds. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

2. TURNOVER

Turnover, which is stated net of value added tax, comprises the invoice value of goods and services supplied. All turnover and profit before taxation arises from the single activity of design and development of electric assisted steering.

An analysis of turnover by geographical market is given below:

	<i>11 months ended 31 December 1998 £000</i>
United States of America	110

3. OPERATING LOSS

This is stated after charging:

	<i>11 months ended 31 December 1998 £000</i>
Auditors' remuneration	7
Depreciation of owned fixed assets	233
Amortisation of intangible fixed assets	1,371
Operating lease rentals - plant and machinery	38
Royalty expense	1,000

The royalty expense represents an annual payment made to TRW Inc. (USA) for the licence of know-how and other intellectual property.

4. DIRECTORS' EMOLUMENTS

None of the directors received any emoluments in respect of services to the company during the year.

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

5. STAFF COSTS

*11 months ended
31 December
1998
£000*

Wages and salaries	855
Social security costs	68
Other pension costs	100
	<u>1,023</u>

The monthly average number of employees during the period was as follows:

*11 months ended
31 December
1998
No.*

Administration	4
Research and development	29
	<u>33</u>

6. INTEREST PAYABLE

*11 months ended
31 December
1998
£000*

Amounts payable to TRW UK Limited	<u>124</u>
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7. TAX ON LOSS ON ORDINARY ACTIVITIES

The taxation credit is made up as follows:

*11 months ended
31 December
1998
£000*

UK Corporation tax	1,938
Tax losses that are not being paid for by LucasVarity or TRW and surplus losses to be carried forward	(1,633)
	<u>305</u>

There is no potential deferred tax liability.

Tax losses carried forward are £2.5m gross which at 31%, amounts to £775k.

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

8. INTANGIBLE FIXED ASSETS

	<i>Know-how</i>	<i>Patents and licences</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Cost:			
At incorporation	-	-	-
Additions	2,125	27,467	29,592
At 31 December 1998	2,125	27,467	29,592
Amortisation:			
At incorporation	-	-	-
Provided during the period	159	1,212	1,371
At 31 December 1998	159	1,212	1,371
Net book value:			
At 31 December 1998	1,966	26,255	28,221
At incorporation	-	-	-

Patents and licences are being written off in equal annual instalments over an estimated economic life of 17 years. Know-how is being written off in equal annual instalments over its estimated economic life of 10 years.

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS at 31 December 1998

9. TANGIBLE FIXED ASSETS

	<i>Short leasehold Improvements £000</i>	<i>Plant and Machinery £000</i>	<i>Motor Vehicles £000</i>	<i>Total £000</i>
Cost:				
At incorporation	-	-	-	-
Additions	1,445	1,297	58	2,800
Disposals	-	(52)	(4)	(56)
At 31 December 1998	1,445	1,245	54	2,744
Depreciation:				
At incorporation	-	-	-	-
Provided during the period	36	189	8	233
At 31 December 1998	36	189	8	233
Net book value:				
At 31 December 1998	1,409	1,056	46	2,511
At incorporation	-	-	-	-

10. DEBTORS

	<i>1998 £000</i>
Trade debtors	86
Amounts owed by group undertakings	110
Consortium relief receivable	305
Other taxes and social security costs	387
	888

11. CREDITORS: amounts falling due within one year

	<i>1998 £000</i>
Bank overdraft	176
Trade creditors	1,063
Amounts owed to group undertakings	6,960
Other creditors	221
Accruals	613
	9,033

Included within amounts due to group undertakings is a loan with TRW UK Limited which represents the amount reimbursed to offset bank account movements.

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS at 31 December 1998

12. SHARE CAPITAL

*Authorised, allotted, called up and fully paid
1998
£000*

Ordinary A Shares of £1 each	12,637
Ordinary B shares of £1 each	12,142
	<u>24,779</u>

On 27 March 1998 the Joint Venture was set up with the issue of A shares to TRW Automotive Systems Limited and B shares to Lucas Industries plc.

Each class of share carries the same right to dividends and voting rights and an equal priority on winding up of the company.

13. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share Capital £000</i>	<i>Share Premium £000</i>	<i>Profit and Loss Account £000</i>	<i>Total £000</i>
Proceeds from issue of A shares	12,637	5,575	-	18,212
Proceeds from issue of B shares	12,142	-	-	12,142
Loss for the period	-	-	(7,767)	(7,767)
At 31 December 1998	<u>24,779</u>	<u>5,575</u>	<u>(7,767)</u>	<u>22,587</u>

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

14. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>1998</i> <i>£000</i>
Operating loss	(7,948)
Depreciation	233
Amortisation of intangible fixed assets	1,371
Loss on sale of tangible fixed assets	50
Increase in debtors	(583)
Increase in creditors	2,165
Net cash outflow from operating activities	<u>(4,712)</u>

(b) Analysis of changes in net debt

	<i>At</i> <i>Incorporation</i> <i>£000</i>	<i>Cash</i> <i>flow 31 December</i> <i>£000</i>	<i>At</i> <i>31 December</i> <i>£000</i>
Bank overdraft	-	(176)	(176)
Debt due within one year	-	(6,692)	(6,692)
	<u>-</u>	<u>(6,868)</u>	<u>(6,868)</u>

15. POST BALANCE SHEET EVENTS

On 1 July 1999 the company moved to the LucasVarity manufacturing site following the completion of refurbishment and will continue to operate out of this site.

On 10 May 1999 TRW Inc acquired LucasVarity plc.

16. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £616,000.

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

17. PENSION COMMITMENTS

The company participates in three pension arrangements, a defined benefit scheme and two hybrid defined benefit/defined contribution schemes. The schemes are funded by the payment of contributions to separately administered trust funds.

Contributions to these schemes are determined on the basis of regular valuations by an independent qualified actuary. The most recent formal valuation was conducted as at 1 January 1997. The most recent valuation for the purposes of determining the pension expense was conducted as at 31 December 1997 using the following main assumptions:

Valuation method	Projected Unit
Rate of return on investments	8.0% per annum
Rate of salary increases	5.0% per annum
Inflation	3.00% per annum
Limited price indexation	2.75% per annum (to a maximum of 5% per annum)

The valuation as at 31 December 1997 of the TRW Steering Systems Limited Retirement Benefit Scheme (of which the majority of the company's employees are members) showed that the market value of the assets of the Scheme at that date amounted to £91,814,000. The actuarial value of those assets represented 105% of the benefits that had accrued to members, after allowing for expected future increases on pensionable salaries.

The total pension expenses relating to participation in the three arrangements is as follows:

Arrangement	Pension Expense £000s
TRW Steering Systems Limited Retirement Benefit Scheme	43
TRW UK Pension Plan	1
TRW UK Executive Pension Plan	17

18. OTHER FINANCIAL COMMITMENTS

At 31 December 1998 the company had annual commitments under non-cancellable operating leases as set out below:

	Other £000
Operating leases which expire:	
Within one year	19
Within two to five years	50
In over five years	-
	<hr/> 69 <hr/>

TRW LucasVarity Electric Steering Limited

NOTES TO THE ACCOUNTS

at 31 December 1998

19. RELATED PARTIES

The company operates as a Joint Venture between TRW Automotive Systems Limited, who owns 51% of the share capital, and Lucas Industries plc, who owns the remaining 49%.

During the period, the company purchased engineering services from LucasVarity totalling £1,087,197 and marketing, financial and engineering services from TRW totalling £1,338,012.

The liability at 31 December 1998 to LucasVarity totalled £356,212 and to TRW totalled £268,386.

In return, TRW owed the company £304,762 relating to a tax offset and £110,000 for the sales made in the period. LucasVarity owed the Joint Venture £125,742, of which £39,668 has been provided against.